

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Village of Muir - Water System</b>	County <b>Ionia</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>7/27/04</b>	Date Accountant Report Submitted to State: <b>5/5/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>Hungerford, Aldrin, Nichols &amp; Carter, PC</b>			
Street Address <b>2910 Lucerne Drive SE</b>		City <b>Grand Rapids</b>	State <b>MI</b>
		ZIP <b>49546</b>	
Accountant Signature <i>Hungerford, Aldrin, Nichols &amp; Carter, P.C.</i>		Date <b>5/5/05</b>	

**VILLAGE OF MUIR  
WATER SYSTEM  
Ionia County, Michigan**

Comprehensive Annual Financial Report

For the year ended June 30, 2004

**VILLAGE OF MUIR**  
**WATER SYSTEM**  
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For the year ended June 30, 2004

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## **FINANCIAL SECTION**

Hungerford, Aldrin,  
Nichols & Carter, P.C.  
CPAs AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT**

July 27, 2004

The Village Council  
Village of Muir  
Muir, Michigan

We have audited the accompanying financial statements of the business-type activities of the major fund of the Village of Muir Water Supply System (the "System") as of and for the year ended June 30, 2004, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Muir's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements presented include only the Village of Muir Water Supply System and are not intended to present fairly the financial position and results of operations and cash flows of the Village of Muir.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the major fund of the Village of Muir Water Supply System as of June 30, 2004, and the respective changes in financial position and cash flows of its proprietary fund type for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Village adopted the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus* – an Amendment of GASB Statements No. 21 and No. 34 and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* as of July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 27, 2004 on our consideration of the Village of Muir Water Supply Systems' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic purpose financial statements taken as a whole. The accompanying financial information identified as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Village of Muir Water Supply System. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hungerford, Aldrin, Nichols & Berton, P.C.*

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



**VILLAGE OF MUIR  
WATER SUPPLY SYSTEM  
Management's Discussion and Analysis  
June 30, 2004**

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As management of the Village of Muir Water Supply System ("the System"), we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the System's financial statements, which immediately follow this section.

**GASB Adoption**

As of July 1, 2003, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as amended by GASB Statement No. 37 and No. 38, and applied those standards on a retroactive basis.

**Overview of the Financial Statements**

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the System:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *government-wide financial statements* that provide both short-term and long-term information about the System's overall financial status. The System's activities are presented as *business-type* activities, as the costs of the basic services of the System are intended to be recovered through user fees and charges.
- The remaining statements are *fund financial statements* that focus on individual parts of the System and present the information in a more traditional format.
  - ♦ *Proprietary fund statements* provide the same type of information as the government-wide financial statements, only in more detail. The Water Enterprise Fund is the System's major fund, and its only fund.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes budget to actual comparisons and balances and activities by department.

**Government-wide Statements**

The government-wide financial statements report information about the System as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the System's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

**VILLAGE OF MUIR**  
**WATER SUPPLY SYSTEM**  
**Management's Discussion and Analysis**  
**June 30, 2004**

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The two government-wide statements report the System's net assets, and how they have changed. Net assets - the difference between the System's assets and liabilities - is one way to measure the System's financial health or position.

- Over time, increases or decreases in the System's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the System's overall health, one should consider additional non-financial factors such as changes in the System's user base and the condition of System buildings and facilities.

**Condensed Government-Wide Financial Information**

The Statement of Net Assets provides financial information for the System as a whole.

<b>Assets</b>	
Current assets	\$ 510,568
Capital assets	2,282,320
Less accumulated depreciation	<u>(159,266)</u>
Capital assets, net book value	<u>2,123,054</u>
<b>Total Assets</b>	<b><u>2,633,622</u></b>
<b>Liabilities</b>	
Current liabilities	133,203
Long-term liabilities	<u>1,807,711</u>
<b>Total Liabilities</b>	<b><u>1,940,914</u></b>
<b>Net Assets</b>	
Invested in capital assets	225,343
Restricted	64,952
Unrestricted	<u>402,413</u>
<b>Total Net Assets</b>	<b><u>\$ 692,708</u></b>

A portion of the System's net assets (\$64,952) represents resources that are subject to external restrictions on how they may be used. The System may use the remaining balance of unrestricted net assets of \$402,413 to meet its ongoing obligations to citizens and creditors. Unrestricted net assets include the income effect of a \$402,253 account receivable from the Village of Lyons in connection with an ongoing lawsuit. (See Note H in the Notes to Basic Financial Statements.)

At the end of the current fiscal year, the System is able to report positive balances in all three categories of net assets. As this is the first year that we have prepared our financial statements in accordance with GASB Statement 34, we are unable to present comparative data for the prior year.

**VILLAGE OF MUIR**  
**WATER SUPPLY SYSTEM**  
**Management's Discussion and Analysis**  
**June 30, 2004**

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The Statement of Activities presents changes in net assets from operating results:

	<u>Amount</u>	<u>% of Total</u>
<b>Program Revenues</b>		
Charges for services	\$ 151,766	95.0
Capital grants	6,425	4.1
<b>General Revenues</b>		
Interest income	<u>1,469</u>	<u>.9</u>
<b>Total Revenues</b>	<u>159,660</u>	<u>100.0</u>
<b>Expenses</b>		
Operating	108,795	47.7
Interest expense	48,001	21.1
Other	13,043	5.7
Depreciation	<u>58,176</u>	<u>25.5</u>
<b>Total Expenses</b>	<u>228,015</u>	<u>100.0</u>
Decrease in net assets	(68,355)	
<b>Net Assets - Beginning of Year</b>	<u>761,063</u>	
<b>Net Assets - End of Year</b>	<u><u>\$ 692,708</u></u>	

**Financial Analysis of the System as a Whole**

The System's total revenues increased by 10 percent to \$159,660. User fees accounted for most of the System's revenue, contributing about 95 percent of every dollar raised. Another 4 percent came from a grant for well head protection and the remainder from interest income and miscellaneous sources.

Operating expenses increased by 93 percent to \$166,971. The System's expenses are predominantly related to system operation and depreciation on system capital assets. The most significant contributors to higher costs were legal and engineering fees and depreciation expense, which increased significantly as capital assets previously under construction were completed and depreciated for the first time during the fiscal year. Interest expense was \$48,001 for the fiscal year, reflecting payments on the bonds issued to finance the capital improvement project.

**Budgetary Highlights**

The System did not revise the annual Enterprise Fund operating budget during the fiscal year.

**VILLAGE OF MUIR**  
**WATER SUPPLY SYSTEM**  
**Management's Discussion and Analysis**  
**June 30, 2004**

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**Fund Financial Statements**

Major Fund

Water Enterprise Fund – The System's only fund had an excess of operating expenses over operating revenues resulting in an operating loss of \$8,780 for the fiscal year, which along with an excess of interest expense over interest income of \$46,532 and a loss on well impairment/abandonment of \$13,043 decreased fund equity to the \$692,708 reported as net assets above.

**Capital Asset and Debt Administration**

Capital Assets

By June 30, 2004, the System had invested \$2,282,320 in capital assets, including land and system facilities and equipment. This amount represents a net increase of \$55,610 from June 30, 2003 reflecting the completion of the well project whereby the Village has added a new well to the Water Supply System. More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.

The net book value of System assets at June 30, 2004 are as follows:

Land	\$ 32,500
System facilities	2,249,820
Less accumulated depreciation	<u>(159,266)</u>
<b>Net Capital Assets</b>	<b><u>\$ 2,123,054</u></b>

Long-Term Debt

At year end, the System had \$1,897,711 in long-term revenue bonds outstanding, an increase of \$22,058 from last year.

- The System continued to pay down its debt, retiring \$90,000 of outstanding bonds.
- \$112,058 in revenue bonds were issued during the year for construction of the new well.

**VILLAGE OF MUIR**  
**WATER SUPPLY SYSTEM**  
**Management's Discussion and Analysis**  
**June 30, 2004**

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**Factors Bearing on the System's Future**

At the time these financial statements were prepared and audited, the System was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The System has increased water rates by 10 percent as well as added on a fee of \$42.25 per user per month for debt retirement. This increase in revenue will assist in operations and debt payments in future years.
- The Village of Muir has brought suit against the Village of Lyons for non-payment of amounts due in accordance with the agreement to share costs based on water usage by each Village. At this stage in the proceedings, it is unknown what the outcome will be.

**Contacting the System's Financial Management**

This financial report is designed to provide the System's citizens, taxpayers, customers, and investors and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village of Muir, PO Box 205, Muir, Michigan 48860-0205.

## **BASIC FINANCIAL STATEMENTS**

**VILLAGE OF MUIR**  
**WATER SUPPLY SYSTEM**  
**Statement of Net Assets**  
**June 30, 2004**

	<u>Business-Type Activities</u>
<b>Assets</b>	
<b>Current Assets</b>	
Cash equivalents (Note B)	\$ 30,722
Investments (Note B)	-
Accounts receivable (Note C)	12,641
Due from other governmental units (Note D)	402,253
Restricted assets:	
Cash equivalents (Note B)	51,575
Investments (Note B)	13,377
<b>Total Current Assets</b>	<u>510,568</u>
<b>Noncurrent Assets</b>	
Capital assets	2,282,320
Less accumulated depreciation	<u>(159,266)</u>
<b>Total Noncurrent Assets</b>	<u>2,123,054</u>
<b>Total Assets</b>	<u>2,633,622</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Due to other governmental units (Note D)	43,203
Current portion of revenue bonds payable (Note F)	<u>90,000</u>
<b>Total Current Liabilities</b>	<u>133,203</u>
<b>Noncurrent Liabilities, Net of Current Portion</b>	
Revenue bonds payable (Note F)	<u>1,807,711</u>
<b>Total Liabilities</b>	<u>1,940,914</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	225,343
Restricted (Note G)	64,952
Unrestricted	<u>402,413</u>
<b>Total Net Assets</b>	<u>\$ 692,708</u>

See accompanying notes to basic financial statements.

**VILLAGE OF MUIR  
WATER SUPPLY SYSTEM  
Statement of Activities  
For the year ended June 30, 2004**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
<b>Business-Type Activities</b>				
Water enterprise fund	\$ 214,972	\$ 151,766	\$ 6,425	\$ (56,781)
	<b>General Revenues</b>			
	Interest income			1,469
	Gain (loss) on disposal of capital assets			(13,043)
	Total General Revenues			(11,574)
	<b>Change in Net Assets</b>			(68,355)
	<b>Net Assets - Beginning of Year</b>			761,063
	<b>Net Assets - End of Year</b>			<u>\$ 692,708</u>

See accompanying notes to basic financial statements.



**VILLAGE OF MUIR  
WATER SUPPLY SYSTEM  
Proprietary Fund  
Balance Sheet  
June 30, 2004 and 2003**

	Water Enterprise Fund	
	2004	2003
<b>Assets</b>		
<b>Current Assets</b>		
Cash equivalents (Note B)	\$ 30,722	\$ 10,008
Investments (Note B)	-	18,849
Accounts receivable (Note C)	12,641	15,617
Due from other funds	-	10,016
Due from other governmental units (Note D)	402,253	398,711
Restricted assets:		
Cash equivalents (Note B)	51,575	48,769
Investments (Note B)	13,377	64,856
Total Current Assets	<u>510,568</u>	<u>566,826</u>
<b>Noncurrent Assets</b>		
Capital assets (Note E):		
Land	32,500	32,500
Water system	2,205,050	142,292
Improvements	44,770	61,097
Construction in progress	-	1,990,821
Total Capital Assets	<u>2,282,320</u>	<u>2,226,710</u>
Less accumulated depreciation	<u>(159,266)</u>	<u>(151,804)</u>
Net Capital Assets	<u>2,123,054</u>	<u>2,074,906</u>
<b>Total Assets</b>	<u><u>\$ 2,633,622</u></u>	<u><u>\$ 2,641,732</u></u>
<b>Liabilities and Fund Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ -	\$ 5,016
Due to other governmental units (Note D)	43,203	-
Current portion of revenue bonds payable (Note F)	<u>90,000</u>	<u>75,000</u>
Total Current Liabilities	<u>133,203</u>	<u>80,016</u>
<b>Noncurrent Liabilities, Net of Current Portion</b>		
Revenue bonds payable (Note F)	<u>1,807,711</u>	<u>1,800,653</u>
<b>Total Liabilities</b>	<u>1,940,914</u>	<u>1,880,669</u>
<b>Fund Equity</b>		
Retained earnings:		
Restricted (Note G)	64,952	113,625
Unrestricted	<u>627,756</u>	<u>647,438</u>
<b>Total Fund Equity</b>	<u>692,708</u>	<u>761,063</u>
<b>Total Liabilities and Fund Equity</b>	<u><u>\$ 2,633,622</u></u>	<u><u>\$ 2,641,732</u></u>

See accompanying notes to basic financial statements.

**VILLAGE OF MUIR**  
**WATER SUPPLY SYSTEM**  
**Proprietary Fund**  
**Statement of Revenues, Expenses and Changes in Fund Equity**  
**For the years ended June 30, 2004 and 2003**

	Water Enterprise Fund	
	2004	2003
<b>Operating Revenues</b>		
Water charges	\$ 121,694	\$ 113,326
Water charges - General Fund	18,871	17,021
Hydrant rental	6,000	6,000
Well head protection grant	6,425	2,450
Other revenue	5,201	370
<b>Total Operating Revenues</b>	<b>158,191</b>	<b>139,167</b>
<b>Operating Expenses</b>		
Salaries	35,655	42,413
Supplies and materials	3,820	2,154
Contracted services	68,283	34,989
Other	1,037	136
Depreciation	58,176	6,608
<b>Total Operating Expenses</b>	<b>166,971</b>	<b>86,300</b>
<b>Operating Income (Loss)</b>	<b>(8,780)</b>	<b>52,867</b>
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	1,469	2,810
Contributed capital	-	165,287
Well impairment/abandonment	(13,043)	-
Interest expense	(48,001)	-
<b>Net Nonoperating Revenues (Expenses)</b>	<b>(59,575)</b>	<b>168,097</b>
<b>Net Income (Loss)</b>	<b>(68,355)</b>	<b>220,964</b>
<b>Fund Equity, Beginning of Year</b>	<b>761,063</b>	<b>540,099</b>
<b>Fund Equity, End of Year</b>	<b>\$ 692,708</b>	<b>\$ 761,063</b>

See accompanying notes to basic financial statements.

**VILLAGE OF MUIR  
WATER SUPPLY SYSTEM  
Proprietary Fund  
Statement of Cash Flows  
For the years ended June 30, 2004 and 2003**

	Sewer Enterprise Fund	
	2004	2003
<b>Cash Flows From (For) Operating Activities</b>		
Cash received from customers	\$ 157,625	\$ 131,989
Cash payments to suppliers for goods and services	(78,156)	(49,119)
Cash payments to employees for services	(35,655)	(42,413)
<b>Net Cash From (For) Operating Activities</b>	<b>43,814</b>	<b>40,457</b>
<b>Cash Flows From (For) Capital and Related Financing Activities</b>		
Proceeds from revenue bonds	112,058	704,444
Advances/payments from General Fund	53,219	-
Principal paid on revenue bonds	(90,000)	(70,000)
Purchase of capital assets	(119,367)	(768,145)
Interest expense	(48,001)	-
<b>Net Cash From (For) Capital and Related Financing Activities</b>	<b>(92,091)</b>	<b>(133,701)</b>
<b>Cash Flows From (For) Investing Activities</b>		
Investment earnings	1,469	2,810
Redemption of investments	70,521	-
Purchase of investments	(193)	(2,181)
<b>Net Cash From (For) Investing Activities</b>	<b>71,797</b>	<b>629</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>23,520</b>	<b>(92,615)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>58,777</b>	<b>151,392</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 82,297</b>	<b>\$ 58,777</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash From (For) Operating Activities</b>		
Operating income (loss)	\$ (8,780)	\$ 52,867
Adjustments to reconcile operating income (loss) to net cash from (for) operating activities:		
Depreciation expense	58,176	6,608
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	2,976	(2,678)
(Increase) decrease in due from other funds	-	(4,500)
(Increase) decrease in due from other governmental units	(3,542)	-
Increase (decrease) in prepaid expenses	-	2,224
Increase (decrease) in accounts payable	(5,016)	(14,064)
<b>Total adjustments</b>	<b>52,594</b>	<b>(12,410)</b>
<b>Net Cash From (For) Operating Activities</b>	<b>\$ 43,814</b>	<b>\$ 40,457</b>

See accompanying notes to basic financial statements.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**VILLAGE OF MUIR  
WATER SYSTEM  
Notes to Financial Statements  
June 30, 2004**

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## **Note A – Summary of Significant Accounting Policies**

The financial statements of the Village of Muir Water Supply System (the “System”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to local units of government. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

As of July 1, 2003, the System adopted GASB Statement No. 34, “*Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments.*” GASB Statement No. 34 requires new basic financial statements for reporting on the System’s financial activities. The effect of this change was to include a management’s discussion and analysis (MD&A) section providing an analysis of the System’s overall financial position and results of operation; include government-wide financial statements prepared on the full accrual basis of accounting; and include fund financial statements which present information with a focus on major funds, rather than on fund type.

### **1. The Reporting Entity**

The financial reporting entity consists of a primary government and its component units. The Water Supply System is a Proprietary (Enterprise) Fund of the Village of Muir and is the only fund presented in this report. There are no component units combined with the System for financial statement presentation purposes.

### **2. Government-Wide and Fund Financial Statements**

**Government-Wide Financial Statements** - The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the System as a whole. These statements are to distinguish between the *governmental* and *business-type activities* of the System. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The System does not have any governmental activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The System’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Interest earnings and other items not included among program revenues are reported instead as *general revenues*.

### **3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

**VILLAGE OF MUIR**  
**WATER SYSTEM**  
**Notes to Financial Statements**  
**June 30, 2004**

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted as they are needed.

#### **4. Budgets and Budgetary Accounting**

The Village of Muir adopts a budget for the Water Supply System Enterprise Fund, although it is not legally required to do so. The budget adopted and presented in the financial statements was prepared on the same basis as the accounting basis used to reflect actual results.

#### **5. Investments**

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

#### **6. Capital Assets**

Capital assets, which include land, the water system and improvements, are reported in the government-wide and proprietary fund financial statements. Assets having a useful life in excess of one year and whose costs exceed \$1,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

The water system and improvements are depreciated using the straight-line method over the following estimated useful lives:

Water system	40 years
Water system improvements	10 years

#### **7. Long-Term Obligations**

In the government-wide and proprietary fund financial statements, long-term debt is reported as liabilities on the Statement of Net Assets and Balance Sheet. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

#### **8. Customer Charges**

The monthly flat rate user charge for Water Supply System users was \$34.25 for the fiscal year.

**VILLAGE OF MUIR**  
**WATER SYSTEM**  
**Notes to Financial Statements**  
**June 30, 2004**

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**9. Fund Equity**

In the fund financial statements, the proprietary fund reports restrictions of fund equity for amounts that are not available for expenses or are legally segregated for a specific purpose.

**10. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Note B – Cash Equivalents and Investments**

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
- In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- In commercial paper rated at the time of purchase within the 3 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
- In United States government or federal obligation repurchase agreements.
- In bankers' acceptances of United States banks.
- In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- In surplus funds investment pools.

Depositories actively used by the System during the year are detailed as follows:

1. Independent Bank

**VILLAGE OF MUIR  
WATER SYSTEM  
Notes to Financial Statements  
June 30, 2004**

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Balances at June 30, 2004 related to cash equivalents and investments are detailed as follows:

Cash equivalents	\$ 82,297
Investments	<u>13,377</u>
	<u><u>\$ 95,674</u></u>

Cash equivalents consist of bank checking and savings accounts. Investments consist of certificates of deposit.

Cash equivalents and investments at June 30, 2004, as shown by carrying amount and bank balance, and classified by categories of credit risk, are itemized as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured – FDIC	\$ 95,674	\$ 101,758
Uninsured:		
Uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging bank or its trust department or agent but not in the System's name.)	<u>—</u>	<u>—</u>
	<u><u>\$ 95,674</u></u>	<u><u>\$ 101,758</u></u>

### **Note C – Accounts Receivable**

Virtually all of the accounts receivable of the Water Supply System are less than thirty days old. The balance is not material and collection is expected.

### **Note D – Due From/To Other Governmental Units**

The Village of Muir has an agreement with the Village of Lyons to provide their residents with a water system. The operating costs and capital outlay of the treatment facility are shared between the two villages on a metered flow basis. At June 30, 2004, the Village of Lyons owed the Village of Muir \$402,253, computed in accordance with this agreement. See Note H regarding litigation on this agreement. The \$43,203 shown as due to other governmental units is owed to the Village of Muir General Fund for reimbursement of 2003-04 operating and capital expenses.



**VILLAGE OF MUIR  
WATER SYSTEM  
Notes to Financial Statements  
June 30, 2004**

**Note E – Capital Assets**

	<u>Balances July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2004</u>
Capital assets not depreciated:				
Land	\$ 32,500	\$ —	\$ —	\$ 32,500
Construction in progress	1,990,821	—	1,990,821	—
Capital assets being depreciated:				
Water system	142,292	2,110,188	47,430	2,205,050
Improvements	61,097	—	16,327	44,770
	<u>\$ 2,226,710</u>	<u>\$ 2,110,188</u>	<u>\$ 2,054,578</u>	<u>\$ 2,282,320</u>
Less accumulated depreciation for:				
Water system	\$ 103,162	\$ 55,126	\$ 34,387	\$ 123,901
Improvements	48,642	3,050	16,327	35,365
	<u>151,804</u>	<u>\$ 58,176</u>	<u>\$ 50,714</u>	<u>159,266</u>
<b>Net Capital Assets</b>	<u>\$ 2,074,906</u>			<u>\$ 2,123,054</u>

Allocation of annual depreciation expense:

Operating expenses	<u>\$ 58,176</u>
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**Note F – Long-term Debt**

Changes in long-term debt for the year ended June 30, 2004 are summarized as follows:

	<u>Debt Outstanding July 1, 2003</u>	<u>Debt Added</u>	<u>Debt Retired</u>	<u>Debt Outstanding June 30, 2004</u>
Revenue bonds:				
Drinking water program:				
September 28, 2001	\$ 1,780,000	\$ —	\$ 75,000	\$ 1,705,000
December 20, 2001	95,653	112,058	15,000	192,711
	<u>\$ 1,875,653</u>	<u>\$ 112,058</u>	<u>\$ 90,000</u>	<u>\$ 1,897,711</u>

**VILLAGE OF MUIR**  
**WATER SYSTEM**  
**Notes to Financial Statements**  
**June 30, 2004**

Long-term bonds at June 30, 2004 are detailed in the following schedule. The bonds are payable from the net revenues of the water system. However, the full faith and credit of the Village of Muir is also pledged. At June 30, 2004, only \$192,711 of the \$340,000 December, 20, 2001 bonds had been issued.

	<b>Final Maturity Dates</b>	<b>Interest Rates</b>	<b>Outstanding Balance</b>	<b>Amount Due Within One Year</b>
<b>Revenue Bonds</b>				
Drinking water program:				
\$1,850M September 28, 2001:				
Principal maturities from 75M to 115M	April 1, 2022	2.50	\$ 1,705,000	\$ 75,000
\$340M December 20, 2001:				
Principal maturities from 15M to 20M	April 1, 2022	2.50	192,711	15,000
			<u>\$ 1,897,711</u>	<u>\$ 90,000</u>

The annual requirements to pay principal and interest on long-term bonds outstanding, once construction is completed and the full \$2,190,000 is issued, are as follows:

<b>Year Ended June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2005	\$ 90,000	\$ 50,751	\$ 140,751
2006	90,000	48,500	138,500
2007	95,000	46,251	141,251
2008	95,000	43,876	138,876
2009	100,000	41,501	141,501
2010	100,000	39,000	139,000
2011	105,000	36,501	141,501
2012	110,000	33,876	143,876
2013	115,000	31,126	146,126
2014	115,000	28,250	143,250
2015	120,000	25,376	145,376
2016	120,000	22,376	142,376
2017	120,000	19,376	139,376
2018	125,000	16,376	141,376
2019	130,000	13,250	143,250
2020	130,000	10,000	140,000
2021	135,000	6,750	141,750
2022	135,000	3,376	138,376
	<u>\$ 2,030,000</u>	<u>\$ 516,512</u>	<u>\$ 2,546,512</u>

**VILLAGE OF MUIR  
WATER SYSTEM  
Notes to Financial Statements  
June 30, 2004**

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**Note G – Restricted Net Assets/Fund Equity**

Certain net assets/fund equity of the Water Supply System has been restricted for particular purposes as follows:

General purpose	\$ 47,442
Water project construction	17,100
Customer deposit refunds	<u>410</u>
Total Restricted Net Assets	<u>\$ 64,952</u>

**Note H – Litigation**

The Village of Muir has brought suit against the Village of Lyons for non-payment of amounts due in accordance with the agreement to share costs based on water usage by each Village. The amount outstanding at June 30, 2004 is \$402,253. Outside counsel of the Village has advised that at this stage in the proceedings he cannot offer an opinion as to the probable outcome.

## **SUPPLEMENTAL INFORMATION**

**VILLAGE OF MUIR  
WATER SUPPLY SYSTEM  
Combining Balance Sheet  
June 30, 2004**

<b>Assets</b>	<u>Receiving</u>	<u>Operating and Maintenance</u>	<u>Customer Deposits</u>	<u>Water Project Construction</u>
Cash equivalents:				
Restricted	\$ -	\$ -	\$ 410	\$ 17,100
Unrestricted	635	30,087	-	-
Investments:				
Restricted	-	-	-	-
Accounts receivable	-	12,641	-	-
Due from other governmental units	-	402,253	-	-
Capital assets:				
Land	-	-	-	-
Water supply system	-	-	-	-
Improvements	-	-	-	-
Accumulated depreciation	-	-	-	-
<b>Total Assets</b>	<u><u>\$ 635</u></u>	<u><u>\$ 444,981</u></u>	<u><u>\$ 410</u></u>	<u><u>\$ 17,100</u></u>
<b>Liabilities and Fund Equity</b>				
<b>Liabilities</b>				
Due to other governmental units	\$ -	\$ 43,203	\$ -	\$ -
Bonds payable	-	-	-	-
<b>Total Liabilities</b>	<u>-</u>	<u>43,203</u>	<u>-</u>	<u>-</u>
<b>Fund Equity</b>				
Retained earnings:				
Restricted	-	-	410	17,100
Unrestricted	635	401,778	-	-
<b>Total Fund Equity</b>	<u>635</u>	<u>401,778</u>	<u>410</u>	<u>17,100</u>
<b>Total Liabilities and Fund Equity</b>	<u><u>\$ 635</u></u>	<u><u>\$ 444,981</u></u>	<u><u>\$ 410</u></u>	<u><u>\$ 17,100</u></u>

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<u>General Purpose</u>	<u>Capital Assets</u>	<u>Total</u>
\$ 34,065	\$ -	\$ 51,575
-	-	30,722
13,377	-	13,377
-	-	12,641
-	-	402,253
-	32,500	32,500
-	2,205,050	2,205,050
-	44,770	44,770
-	(159,266)	(159,266)
<u>\$ 47,442</u>	<u>\$ 2,123,054</u>	<u>\$ 2,633,622</u>
\$ -	\$ -	\$ 43,203
-	1,897,711	1,897,711
-	1,897,711	1,940,914
47,442	-	64,952
-	225,343	627,756
47,442	225,343	692,708
<u>\$ 47,442</u>	<u>\$ 2,123,054</u>	<u>\$ 2,633,622</u>

**VILLAGE OF MUIR**  
**WATER SUPPLY SYSTEM**  
**Combining Statement of Revenues, Expenses and Changes in Fund Equity**  
**For the year ended June 30, 2004**

	Receiving	Operating and Maintenance	Customer Deposits
<b>Operating Revenues</b>			
Water charges	\$ -	\$ 121,694	\$ -
Water charges - General Fund	-	18,871	-
Hydrant rental	-	6,000	-
Well head protection grant	-	6,425	-
Other revenue	-	5,201	-
<b>Total Operating Revenues</b>	<u>-</u>	<u>158,191</u>	<u>-</u>
<b>Operating Expenses</b>			
Salaries:			
Labor	-	29,154	-
Treasurer	-	1,200	-
Clerical	-	5,301	-
Office supplies	-	1,237	-
Samples and testing	-	2,583	-
Legal and professional fees	-	12,812	-
Engineering	-	10,371	-
Education and training	-	762	-
Insurance	-	2,398	-
Utilities	-	6,983	-
Repair and maintenance	-	4,270	-
Vehicle rental	-	6,095	-
Water - annual fees	-	538	-
Well head protection	-	13,788	-
Well project	-	10,266	-
Miscellaneous	-	1,037	-
Depreciation	-	-	-
<b>Total Operating Expenses</b>	<u>-</u>	<u>108,795</u>	<u>-</u>
<b>Operating Income (Loss)</b>	<u>-</u>	<u>49,396</u>	<u>-</u>
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	-	1,134	-
Well impairment/abandonment	-	(13,043)	-
Interest expense	-	(48,001)	-
<b>Net Nonoperating Revenues (Expenses)</b>	<u>-</u>	<u>(59,910)</u>	<u>-</u>
<b>Income (Loss) Before Operating Transfers</b>	<u>-</u>	<u>(10,514)</u>	<u>-</u>
<b>Operating Transfers In (Out)</b>			
Transfer to general purpose	-	(6,125)	-
Transfer to capital assets	-	(29,133)	-
<b>Total Operating Transfers In (Out)</b>	<u>-</u>	<u>(35,258)</u>	<u>-</u>
<b>Net Income (Loss)</b>	<u>-</u>	<u>(45,772)</u>	<u>-</u>
<b>Fund Equity, Beginning of Year</b>	<u>635</u>	<u>447,550</u>	<u>410</u>
<b>Fund Equity, End of Year</b>	<u>\$ 635</u>	<u>\$ 401,778</u>	<u>\$ 410</u>

Water Project Construction	General Purpose	Capital Assets	Total
\$ -	\$ -	\$ -	\$ 121,694
-	-	-	18,871
-	-	-	6,000
-	-	-	6,425
-	-	-	5,201
-	-	-	158,191
-	-	-	29,154
-	-	-	1,200
-	-	-	5,301
-	-	-	1,237
-	-	-	2,583
-	-	-	12,812
-	-	-	10,371
-	-	-	762
-	-	-	2,398
-	-	-	6,983
-	-	-	4,270
-	-	-	6,095
-	-	-	538
-	-	-	13,788
-	-	-	10,266
-	-	-	1,037
-	-	58,176	58,176
-	-	58,176	166,971
-	-	(58,176)	(8,780)
-	335	-	1,469
-	-	-	(13,043)
-	-	-	(48,001)
-	335	-	(59,575)
-	335	(58,176)	(68,355)
-	6,125	-	-
(55,133)	-	84,266	-
(55,133)	6,125	84,266	-
(55,133)	6,460	26,090	(68,355)
72,233	40,982	199,253	761,063
\$ 17,100	\$ 47,442	\$ 225,343	\$ 692,708



**VILLAGE OF MUIR**  
**WATER SUPPLY SYSTEM**  
**Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual**  
**For the year ended June 30, 2004**  
**With comparative actual amounts for the year ended June 30, 2003**

	2004		Variance- Favorable (Unfavorable)	2003
	Budget	Actual		Actual
<b>Revenues</b>				
Water charges	\$ 105,000	\$ 121,694	\$ 16,694	\$ 113,326
Water charges - General Fund	15,000	18,871	3,871	17,021
Hydrant rental	6,000	6,000	-	6,000
Well head protection grant	-	6,425	6,425	2,450
Other revenue	1,000	5,201	4,201	370
<b>Total Operating Revenues</b>	<b>127,000</b>	<b>158,191</b>	<b>31,191</b>	<b>139,167</b>
<b>Operating Expenses</b>				
Salaries:				
Labor	21,000	29,154	(8,154)	31,406
Treasurer	1,200	1,200	-	3,019
Clerical	7,000	5,301	1,699	7,988
Office supplies	1,200	1,237	(37)	1,214
Samples and testing	1,000	2,583	(1,583)	940
Legal and professional fees	8,500	12,812	(4,312)	7,488
Engineering	4,000	10,371	(6,371)	3,013
Education and training	1,000	762	238	1,049
Insurance	2,000	2,398	(398)	2,737
Utilities	4,500	6,983	(2,483)	4,619
Repair and maintenance	2,000	4,270	(2,270)	3,947
Vehicle rental	4,000	6,095	(2,095)	6,415
Water - annual fees	500	538	(38)	537
Well head protection	6,000	13,788	(7,788)	4,970
Well project	-	10,266	(10,266)	214
Miscellaneous	-	1,037	(1,037)	136
Depreciation	75,000	58,176	16,824	6,608
<b>Total Operating Expenses</b>	<b>138,900</b>	<b>166,971</b>	<b>(28,071)</b>	<b>86,300</b>
<b>Operating Income (Loss)</b>	<b>(11,900)</b>	<b>(8,780)</b>	<b>3,120</b>	<b>52,867</b>
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	500	1,469	969	2,810
Contributed capital	-	-	-	165,287
Well impairment/abandonment	-	(13,043)	(13,043)	-
Interest expense	(19,000)	(48,001)	(29,001)	-
<b>Net Nonoperating Revenues</b>	<b>(18,500)</b>	<b>(59,575)</b>	<b>(41,075)</b>	<b>168,097</b>
<b>Net Income (Loss)</b>	<b>(30,400)</b>	<b>(68,355)</b>	<b>(37,955)</b>	<b>220,964</b>
<b>Fund Equity, Beginning of Year</b>	<b>761,063</b>	<b>761,063</b>	<b>-</b>	<b>540,099</b>
<b>Fund Equity, End of Year</b>	<b>\$ 730,663</b>	<b>\$ 692,708</b>	<b>\$ (37,955)</b>	<b>\$ 761,063</b>

**VILLAGE OF MUIR  
WATER SUPPLY SYSTEM  
OPERATING AND MAINTENANCE FUND  
Combining Schedule of Expenses  
For the year ended June 30, 2004**

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	<u>Production System</u>	<u>Distribution System</u>	<u>Totals</u>
<b>Expenses</b>			
Salaries:			
Labor	\$ 14,049	\$ 15,105	\$ 29,154
Treasurer	-	1,200	1,200
Clerical	1,325	3,976	5,301
Office supplies	309	928	1,237
Samples and testing	2,583	-	2,583
Legal and professional fees	6,406	6,406	12,812
Engineering	10,371	-	10,371
Education and training	-	762	762
Insurance	1,199	1,199	2,398
Utilities	6,743	240	6,983
Repair and maintenance	4,270	-	4,270
Vehicle rental	2,411	3,684	6,095
Water - annual fees	538	-	538
Well head protection	-	13,788	13,788
Well project	10,266	-	10,266
Miscellaneous	259	778	1,037
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total Expenses</b>	<u><u>\$ 60,729</u></u>	<u><u>\$ 48,066</u></u>	<u><u>\$ 108,795</u></u>

Hungerford, Aldrin,  
Nichols & Carter, P.C.  

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C P A s A N D C O N S U L T A N T S

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

July 27, 2004

The Village Council  
Village of Muir  
Muir, Michigan

We have audited the basic financial statements of the Village of Muir Water Supply System as of and for the year ended June 30, 2004, and have issued our report thereon dated July 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Village of Muir Water Supply System's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village of Muir Water Supply System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The Village Council  
Village of Muir  
July 27, 2004

This report is intended solely for the information and use of the Village Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hungerford, Aldrin, Nichols & Bester, P.C.*

Certified Public Accountants

Hungerford, Aldrin,  
Nichols & Carter, P.C.  
CPAs AND CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

July 27, 2004

The Village Council  
Village of Muir  
Muir, Michigan

**Compliance**

We have audited the compliance of the Village of Muir Water Supply System with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Village of Muir Water Supply System's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Village of Muir Water Supply System's management. Our responsibility is to express an opinion on the Village of Muir Water Supply System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Muir Water Supply System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village of Muir Water Supply System's compliance with those requirements.

In our opinion, the Village of Muir Water Supply System complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

The Village Council  
Village of Muir  
July 27, 2004

**Internal Control Over Compliance**

The management of the Village of Muir Water Supply System is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Village of Muir Water Supply System's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Village Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Hungerford, Aldrin, Nichols & Bester, P.C.*

Certified Public Accountants

**VILLAGE OF MUIR  
WATER SUPPLY SYSTEM  
Schedule of Expenditures of Federal Awards  
For the year ended June 30, 2004**

<u>Grant Title</u>	<u>Federal CFDA Number</u>	<u>Project Number</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>
<b>Environmental Protection Agency</b>				
Passed through the State of Michigan - Department of Environmental Quality				
Capitalization Grant for Drinking Water State Revolving Fund	66.468	7079-02	\$ 77,263	\$ 77,263
Well Head Protection Grant for Drinking Water State Revolving Fund	66.468	WSSN 4550	6,425	12,850
Total			<u>\$ 83,688</u>	<u>\$ 90,113</u>

**VILLAGE OF MUIR  
WATER SUPPLY SYSTEM  
Schedule of Findings and Questioned Costs  
For the year ended June 30, 2004**

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**Section I – Summary of Auditor’s Results**

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***Financial Statements***

Type of auditors' report issued:

Internal control over financial reporting:

• Material weakness(es) identified?	<u>          </u> Yes	<u>      X      </u> No
• Reportable condition(s) identified that are not considered to be material weaknesses?	<u>          </u> Yes	<u>      X      </u> None reported
Noncompliance material to financial statements noted?	<u>          </u> Yes	<u>      X      </u> No

***Federal Awards***

Internal control over financial reporting:

• Material weakness(es) identified?	<u>          </u> Yes	<u>      X      </u> No
• Reportable condition(s) identified that are not considered to be material weaknesses?	<u>          </u> Yes	<u>      X      </u> None reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

<u>          </u> Yes	<u>      X      </u> No
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Identification of major programs:

66.468	Capitalization Grants for Drinking Water State Revolving Fund
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Dollar threshold used to distinguish between type A and type B programs:

     \$300,000     

Auditee qualified as low-risk auditee:

<u>      X      </u> Yes	<u>          </u> No
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**Section II – Financial Statement Findings**

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No matters reported.

**Section III – Federal Award Findings and Questioned Costs**

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No matters reported.



**VILLAGE OF MUIR  
WATER SYSTEM  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2004**

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**Note A – Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Village of Muir Water Supply System and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Hungerford, Aldrin,  
Nichols & Carter, P.C.  

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C P A S AND CONSULTANTS

January 12, 2005

To the Members of the Village Council  
Village of Muir  
PO Box 205  
Muir, Michigan 48860-0205

Ladies and Gentlemen:

We have completed our audit of the financial records of the Water Supply System for the year ended June 30, 2004, and have enclosed 15 copies of your financial statements. We call attention to the following items:

**1. Shared Costs Of The Village Of Lyons:**

Balance due from Village of Lyons – June 30, 2003	\$398,711
Additional monthly amount due	<u>3,542</u>
Balance due from Village of Lyons – June 30, 2004	<u><u>\$402,253</u></u>

**2. Adjusting Entries:**

We have enclosed adjusting entries for the year ended June 30, 2004. These entries should be posted to the general ledger as of June 30, 2004.

**3. Budget line items:**

The Village should budget line items based on anticipated revenues and expenses for the year. If significant variations are expected, the Village should amend the budget to more accurately reflect the actual numbers. The Village should consider adopting a budget for depreciation expense. Depreciation expense will be about \$58,176 each year, and a budget for this amount should be adopted. The principal payments on the loan are an offset to the liability account; they are not an expense of the Village. As a result, no budget should be set up for this payment. The budget for the interest portion of the payment should be made according to the maturity schedule.

Members of the Village Council  
Page 2  
January 12, 2005

**4. Account Payable to General Fund**

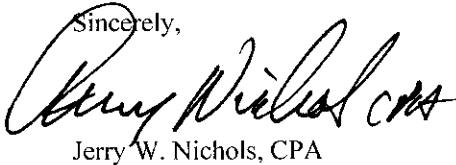
The General Fund transferred funds to the Water Supply System in March 2004. This amount was transferred to help cover the debt payments due. This amount is now due back to the General Fund.

**5. Board Resolution**

We recommend that the board adopt a resolution to discontinue the receiving fund, customer deposits fund and general purpose fund. This will help to simplify the financial statement presentation. These funds will then be combined with the general operating fund.

If you have any questions or desire any additional information on these recommendations, please let us know. We wish to thank the Village Clerk and Treasurer for their cooperation during the course of our examination.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry W. Nichols CPA". The signature is fluid and cursive, with the "CPA" part written in a slightly different style than the name.

Jerry W. Nichols, CPA

Enclosures